

British Columbia Liquor Distribution Branch

# 2008/2009 Annual Report



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**VISION** That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

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**MISSION** To be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and social responsibility.

**VALUES Exemplary Service**

We take pride in the quality of our work. We strive for excellence in serving customers and coworkers.

**Public Safety and Social Responsibility**

We encourage and support the responsible use of beverage alcohol.

**Integrity**

We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

**Respect**

We treat all individuals with fairness, dignity and respect.

**Teamwork**

We support one another to achieve corporate goals.

**Innovation**

We encourage our people to find innovative and creative ways to improve our business.



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## GENERAL MANAGER'S MESSAGE TO THE MINISTER RESPONSIBLE

*The Honourable Rich Coleman, Minister of Housing and Social Development*



### **Income Growth**

The British Columbia Liquor Distribution Branch (LDB) achieved a net income of \$891 million for fiscal 2008/2009, compared to \$857 million the previous year. We exceeded our service plan target for 2008/2009 by \$38 million.

### **Sales Up in 2008/2009**

Total LDB sales for the year were \$2.8 billion, an increase of \$123 million, or 4.6 per cent, over the service plan target and \$115 million, or 4.3 per cent, more than last year. The LDB saw increased sales in most product categories during 2008/2009: 5.1 per cent in spirits, 5.2 per cent in wine, 3.0 per cent in packaged beer, 1.5 per cent in draft beer and 6.3 per cent in refreshment beverages.

### **Green Plan**

The LDB is exploring leading edge energy reduction programs in all areas—corporate, distribution and retail—to minimize our carbon footprint. We're confident we can achieve the government's goals for greenhouse gas reductions and continue to set high standards for sustainability, by building on existing programs and introducing new and innovative initiatives. To achieve these goals, we have developed a *Green Plan* to track environmental projects at the LDB.

### **Commitment to Retail Service**

The LDB continues our commitment to providing customers with an enhanced shopping environment, increased product selection and a high level of service. To that end, we continue to roll out the BC Liquor Stores common appearance and retailing standards to our retail chain. In 2008/2009, four major store remodels were completed, including one for the Park Royal Signature Store.

### **Enhancing Wholesale Services**

Some LDB wholesale customers began ordering products online this year to test our new web-based ordering system. The online service will be expanded to other wholesale customers in summer 2009. The LDB's Wholesale Customer Centres service up to 1,200 customers on a weekly basis, and the Vancouver Wholesale Customer Centre is now servicing more than 400 licensee retail store (LRS) direct-delivery customers, which represents 80 per cent of the total LRS retail dollar volume of LDB-delivered products.

### **Payment Card Compliance**

In 2005, the payment card industry increased data security requirements for debit and credit cards. In 2008, the provincial government established a program to ensure all government areas using payment cards comply with the standards (called the Payment Card Industry Data Security Standards Compliance Program). The LDB initiated a PCI DSS Remediation Program to implement new technologies and make the operational changes needed to comply with the standards. The change most visible to the public will be the ability to accept new "Chip and PIN" payment cards in all BC Liquor Stores by the end of June 2009. We upgraded point-of-sale terminals to lower the risk of a data breach at any of our stores.

### **Succession Planning and Training**

The LDB continues to focus on succession management, as some of the workforce approaches retirement. This is supported by our comprehensive recruitment programs to attract and retain exemplary employees. Each year, we also offer employees a range of learning and development opportunities to ensure the LDB can continue to deliver exceptional customer service.

### **Second Data Centre**

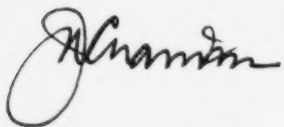
The LDB will establish a second data centre at our Kamloops Distribution Centre to reduce the risk of infrastructure-related outages and enable disaster recovery solutions. Targeted for completion in 2010, this facility will be our primary data centre.

The 2008/2009 LDB Annual Report was prepared under my direction, in accordance with the *Budget Transparency and Accountability Act* and the *BC Reporting Principles*.

I am accountable for the contents of this report, which reflects the actual performance of the LDB for the 12 months ended March 31, 2009, in relation to the February 2008 service plan. The measures presented are consistent with the LDB's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant decisions, events and identified risks, as of June 5, 2009, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures or targets made since the February 2008 service plan was released and any significant limitations in the reliability of the data are identified in the report.



**Jay Chambers**  
General Manager  
June 5, 2009

## GOVERNANCE

In British Columbia, the Liquor Distribution Branch (LDB) is one of two branches of government responsible for the liquor industry. The *Liquor Distribution Act* gives the LDB the sole right to purchase beverage alcohol both within BC and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*.

Reporting to the Minister of Housing and Social Development, the LDB:

- Handles importing, distributing, wholesaling and retailing of beverage alcohol in BC
- Operates government liquor stores and distribution centres
- Has a general manager who is responsible for administering the *Liquor Distribution Act*, which includes oversight of government liquor stores, subject to direction from the minister

The Act clarifies:

- LDB administration
- Government liquor store operation
- The role and powers of the LDB general manager

The LDB follows the Crown Agencies Secretariat guidelines for service plans and annual reports, and is reported out in public accounts in a manner similar to a commercial crown corporation, on a modified equity basis.

Another branch of the Ministry of Housing and Social Development—the Liquor Control and Licensing Branch (LCLB)—licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

Visit [www.bcldb.com](http://www.bcldb.com) and click on the *About Us* link for more on the LDB.

## BUSINESS OF THE LIQUOR DISTRIBUTION BRANCH

The Liquor Distribution Branch operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model.

As of March 31, 2009, the LDB:

- Has a workforce of approximately 3,500 full- and part-time employees;
- Operates 197 government liquor stores (GLSs) throughout the province;
- Operates two distribution centres (DCs), in Vancouver and Kamloops; and
- Has a Head Office facility in Vancouver.

As part of BC's mixed model retail system, the LDB is committed to providing customers with an enhanced shopping environment, increased product selection and a high level of service.

The LDB purchases beverage alcohol from more than 400 suppliers and manufacturers within the province, across the country and around the world. Licensed manufacturing sites in BC include 189 wineries, 51 breweries and 33 brew pubs, and 11 distilleries.

### MEET THE LDB EXECUTIVE MANAGEMENT COMMITTEE:

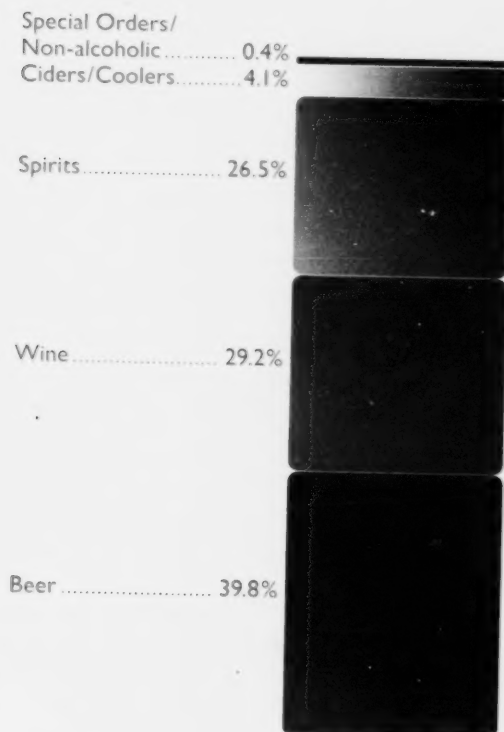
<b>Jay Chambers</b>	General Manager
<b>Roger Bissoondatt</b>	Chief Financial Officer
<b>Kelly Wilson</b>	Executive Director, Retail Services
<b>Catherine Sloan</b>	Legal Counsel
<b>Gordon Zelenika</b>	Executive Director, Human Resources
<b>Don Farley</b>	Executive Director, Information Services
<b>Gordon Hall</b>	Director, Corporate Policy
<b>Donna Morse</b>	Director, Corporate Security



**PERCENTAGE OF GROSS \$ SALES  
BY RETAIL CHANNEL  
2008/09**



**PERCENTAGE OF GROSS \$ SALES  
BY PRODUCT CATEGORY  
2008/09**



BC's beverage alcohol retail model includes:

- GLSs (government-owned and -operated stores that sell liquor to retail and wholesale customers);
- licensee retail stores (LRSs – private liquor stores licensed to sell all liquor products);
- rural agency stores (RASs – general merchandise stores in rural communities authorized to sell all liquor products);
- on-site manufacturer stores (stores at wineries, breweries and distilleries that sell products manufactured on-site);
- off-site manufacturer stores (stores operated by the BC wine industry that sell BC winery products);
- private wine stores; and
- duty-free stores.

With more than 1,300 liquor retail outlets operating in BC, consumers have a variety of choices depending on their service needs:

- 197 GLSs
- 674 LRSs
- 224 RASs
- 203 on-site manufacturer stores
- 35 off-site manufacturer stores
- 12 private wine stores
- 11 duty free stores

The wholesale beverage alcohol model in BC includes the two government distribution centres as well as a number of private distributors, who are authorized to distribute liquor as agents of the LDB.

## LDB CUSTOMERS AND STAKEHOLDERS

The LDB is one of the largest retailers in BC, with more than 34.5 million customer visits to BC Liquor Stores during fiscal 2008/09. We also serve approximately 1,200 wholesale customers a week. The LDB sources a wide selection of domestic and international beverage alcohol products for our customers, and employees strive to offer exemplary service in assisting both our retail and wholesale customers to find the right products to suit their needs.

### LDB STAKEHOLDERS

- The people of BC
- LDB employees
- LDB suppliers

To serve the interests of our customers and stakeholders, we:

- deliver quality products and services;
- provide products and services to a variety of liquor retail venues throughout British Columbia;
- manage the importation, warehousing, transportation and sale of liquor;
- promote the safe and responsible use of beverage alcohol; and
- implement policies to ensure LDB workplaces are safe and free of harassment or discrimination.

To fulfill our responsibilities to the government and people of British Columbia, we:

- maximize revenue to the government of British Columbia;
- manage the LDB's business risks;
- ensure accountability of key business partners; and
- develop and implement programs and services aimed at deterring the sale of beverage alcohol to minors, those who appear intoxicated, or those who are believed to be buying for either of these parties.

### LDB CORE BUSINESS AREAS

#### Retail Services

- Encompasses both the retail and the wholesale departments and includes Distribution, Store Operations, Purchasing, Marketing, Wholesale and Real Estate.

#### Corporate Security

- Responsible for security policies and programs. Corporate Security is also responsible for the LDB's Emergency Management and Business Continuity programs.

#### Legal Services

- Provides legal advice to the LDB and directs the Information and Privacy program.

#### Corporate Policy

- Researches and advises on corporate policy issues and works with other government organizations on cross-jurisdictional issues. The department is also responsible for Communications.

#### Finance

- Responsible for revenue, expenditures, budgeting and reporting, and the regulations around liquor importation and distribution in the province. The internal audit department also reports to Finance.

#### Information Services

- Supports the technology required to enable business processes, and provides information relevant to the LDB's business function and security.

#### Human Resources

- Provides services related to recruitment and selection, employee training and development, labour relations, classification and compensation, leave and benefit administration and organizational development.



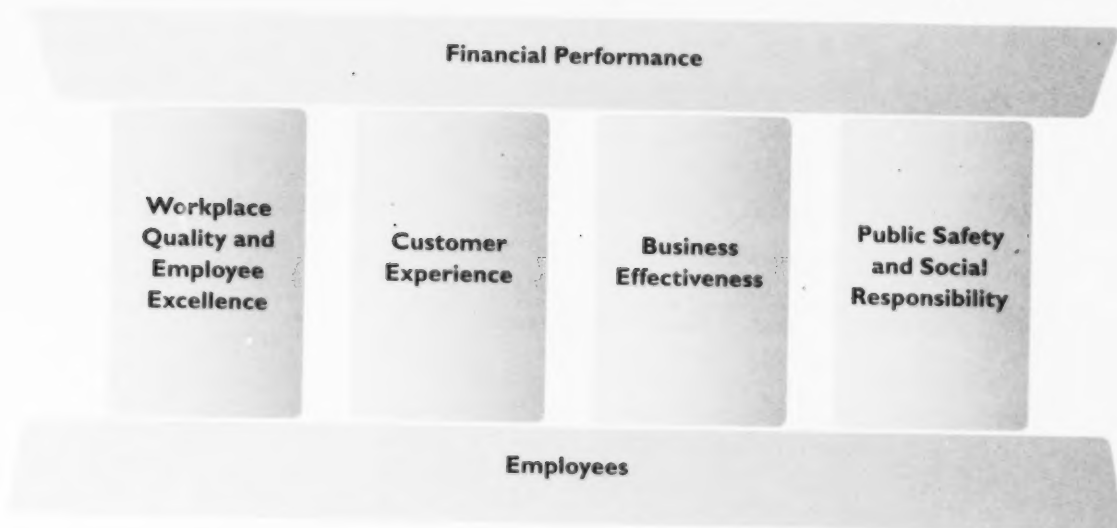
## THE FOUR PILLARS FRAMEWORK

The LDB organizes its strategic priorities and key objectives around the concept of four pillars. All four pillars support financial performance and at the foundation are the LDB's dedicated employees.

### HIGH-LEVEL GOALS

The five high-level goals are:

- Financial Performance**  
Maximize net income within the policy guidelines established by government.
- Workplace Quality and Employee Excellence**  
Create a customer-focused, high performance work environment that encourages greater employee involvement, development, innovation and creativity.
- Customer Experience**  
Maintain the high level of wholesale and retail customer experience.
- Business Effectiveness**  
Maintain operating efficiencies in a climate of constant change.
- Public Safety and Social Responsibility**  
Encourage the responsible use of beverage alcohol.



## GOAL 1: FINANCIAL PERFORMANCE

Maximize net income within the policy guidelines established by government.

### PERFORMANCE HIGHLIGHTS

Sales of beverage alcohol exceeded Service Plan targets in fiscal 2008/09. Total sales for the year were \$2.8 billion, an increase of \$123 million or 4.6 per cent over the 2008/09-2010/11 targets and \$115 million or 4.3 per cent over last year. Net income for fiscal 2008/09 was \$891 million, exceeding the target by \$38 million. Net income – total revenue less total expenses – is the LDB's financial contribution to the province of British Columbia.

Sales in all categories performed ahead of forecast, with the exception of the non-alcoholic category which was below Plan (\$7.4 million). The strong sales were reflected in increases of 5.1 per cent in spirits, 5.2 percent in wine, 3.0 per cent in packaged beer, 1.5 per cent in draught beer and 6.3 per cent in the refreshment beverage category, compared to fiscal 2007/08.

An increase of 20 licensee retail stores (LRSs) contributed to the 6.8 per cent increase in sales to those outlets over the previous year. Total liquor outlets in the province increased by 51 from 1,305 to 1,356 during the year.

#### Sales by Major Category (\$000s)

	2008/09	2007/08	2006/07	2005/06	2004/05	Change vs Previous Year	
						\$	%
Domestic Spirits	426,101	410,071	389,181	366,999	353,392	16,030	3.9
Import Spirits	314,827	294,881	267,723	239,560	221,004	19,946	6.8
<b>Total Spirits</b>	<b>740,928</b>	<b>704,952</b>	<b>656,904</b>	<b>606,559</b>	<b>574,396</b>	<b>35,976</b>	<b>5.1</b>
Domestic Wine	354,793	376,762	304,000	277,431	251,009	(21,969)	(5.8)
Import Wine	460,577	398,204	386,835	338,881	306,904	62,372	15.7
<b>Total Wine</b>	<b>815,369</b>	<b>774,966</b>	<b>690,835</b>	<b>616,312</b>	<b>557,913</b>	<b>40,403</b>	<b>5.2</b>
Domestic Refreshment	91,467	89,656	90,878	85,749	87,526	1,811	2.0
Import Refreshment	23,467	18,454	12,681	9,950	10,876	5,013	27.2
<b>Total Refreshment</b>	<b>114,934</b>	<b>108,110</b>	<b>103,559</b>	<b>95,699</b>	<b>98,402</b>	<b>6,824</b>	<b>6.3</b>
Domestic Beer	897,135	885,342	868,997	839,227	830,380	11,793	1.3
Import Beer	213,917	195,536	177,598	149,111	137,554	18,381	9.4
<b>Total Beer</b>	<b>1,111,052</b>	<b>1,080,878</b>	<b>1,046,595</b>	<b>988,338</b>	<b>967,934</b>	<b>30,174</b>	<b>2.8</b>
Miscellaneous/Special Orders	12,247	10,560	11,232	11,735	10,164	1,687	16.0
<b>Total Sales</b>	<b>2,794,530</b>	<b>2,679,466</b>	<b>2,509,125</b>	<b>2,318,643</b>	<b>2,208,809</b>	<b>115,064</b>	<b>4.3</b>

### Sales by Major Category in Litres (000s)

	2008/09	2007/08	2006/07	2005/06	2004/05	Change vs Previous Year	
						Litre	%
Domestic Spirits	15,867	15,829	15,488	15,152	14,739	38	0.2
Import Spirits	9,877	9,502	8,909	8,216	7,678	375	4.0
<b>Total Spirits</b>	<b>25,744</b>	<b>25,331</b>	<b>24,397</b>	<b>23,368</b>	<b>22,417</b>	<b>413</b>	<b>1.6</b>
Domestic Wine	29,044	29,593	26,781	25,763	24,012	(549)	(1.9)
Import Wine	28,298	25,883	25,087	22,726	21,122	2,415	9.3
<b>Total Wine</b>	<b>57,342</b>	<b>55,476</b>	<b>51,868</b>	<b>48,489</b>	<b>45,134</b>	<b>1,866</b>	<b>3.4</b>
Domestic Refreshment	19,165	18,799	19,267	18,387	18,665	366	2.0
Import Refreshment	3,970	3,061	2,048	1,471	1,602	909	29.7
<b>Total Refreshment</b>	<b>23,135</b>	<b>21,860</b>	<b>21,315</b>	<b>19,858</b>	<b>20,267</b>	<b>1,275</b>	<b>5.8</b>
Domestic Beer	236,782	240,933	239,868	237,338	237,623	(4,151)	(1.7)
Import Beer	46,357	43,671	39,356	33,274	31,109	2,686	6.2
<b>Total Beer</b>	<b>283,139</b>	<b>284,604</b>	<b>279,224</b>	<b>270,612</b>	<b>268,732</b>	<b>(1,465)</b>	<b>(0.5)</b>
Miscellaneous/Special Orders	164	187	194	201	199	(23)	(12.3)
<b>Total Sales</b>	<b>389,524</b>	<b>387,458</b>	<b>376,998</b>	<b>362,528</b>	<b>356,749</b>	<b>2,066</b>	<b>0.5</b>

### GOAL 1: FINANCIAL PERFORMANCE TARGETS AND RESULTS 2008/2009

**Maximize net income within the policy guidelines established by government.**

#### OBJECTIVE

I. Achieve or exceed net income targets

#### STRATEGY

I. Grow sales and effectively manage operating expenses

Performance Measure	Targets	Achievement
<b>Total Sales</b> (\$ billions)	08/09 - \$2.67 09/10 - \$2.73 10/11 - \$2.78	<b>\$2.79 billion</b> <b>Target exceeded:</b> Sales are an important measure of financial performance as they directly impact the LDB's ability to achieve or exceed net income targets. Total sales in fiscal 08/09 exceeded target by \$123 million. Previous years: 07/08 - \$2.68 billion, 06/07 - \$2.51 billion, 05/06 - \$2.32 billion
<b>Gross Margin</b> (\$ billions)	08/09 - \$1.12 09/10 - \$1.14 10/11 - \$1.16	<b>\$1.15 billion</b> <b>Target achieved:</b> Gross margin is an important measure of financial performance as it represents the funds remaining after the cost of product has been paid. These funds are applied to pay for operating expenses with the excess being the contribution to government. Previous years: 07/08 - \$1.1 billion, 06/07 - \$1.09 billion, 05/06 - \$1.02 billion

GOAL 1: FINANCIAL PERFORMANCE TARGETS AND RESULTS 2008/2009 (CONTINUED)

Maximize net income within the policy guidelines established by government.

Performance Measure	Targets	Achievement
<b>Operating Expenses</b> (\$ millions)	08/09 - \$271.6 09/10 - \$279.7 10/11 - \$285.3	<b>\$270.0 million</b> <b>Target achieved:</b> Managing the operating expenses of the LDB is important to achieving the net income targets and is constantly monitored and analyzed. A number of favourable variances – such as employment, business continuity, and training more than offset some additional costs such as repairs and maintenance, merchandising, bank fees from the increased use of credit cards and freight to stores resulting from both increased volume and fuel surcharges. Previous years: 07/08 - \$256.1 million, 06/07 - \$256.3 million, 05/06 - \$242.4 million
<b>Net Income</b> (\$ millions)	08/09 - \$853.6 09/10 - \$863.1 10/11 - \$874.5	<b>\$891.1 million</b> <b>Target exceeded:</b> Net income is \$37.5 million ahead of target. This measure of financial performance – total revenue less total expenses – is the LDB's financial contribution to the province of British Columbia. Increased sales and tight management of operating expenses were the largest contributing factors in exceeding the target. Previous years: 07/08 - \$857.2 million, 06/07 - \$840.3 million, 05/06 - \$800.5 million
<b>Total LDB Expenses as a Percentage of Total LDB Sales</b>	08/09 - 10.2% 09/10 - 10.3% 10/11 - 10.3%	<b>9.7%</b> <b>Target achieved:</b> Managing operating expenses as a percentage of sales is an important financial index as it indicates the degree of efficiency attained by the LDB. Previous years: 07/08 - 9.6%, 06/07 - 10.2%, 05/06 - 10.5%

## GOAL 2: WORKPLACE QUALITY & EMPLOYEE EXCELLENCE

Create a customer-focused, high performance work environment that encourages greater employee involvement, development, innovation and creativity.

### PERFORMANCE HIGHLIGHTS

#### LDB Employees

Our people are our greatest asset. Our proven track record in providing consistently high levels of customer service is attributable to our employees' dedication, enthusiasm and professionalism.

#### Succession Management

The LDB continues to focus on meeting the challenges associated with an aging workforce. Our comprehensive succession management strategy (SMS) recognizes our commitment to retain and grow people at the LDB who exemplify our values. The SMS is complemented by our comprehensive recruitment strategy and is supported through coordinated workforce planning efforts.

#### Learning and Development

Our commitment to delivering outstanding customer service is the cornerstone of our success. To sustain this commitment, our Employee and Organization Development Department offers employees a multitude of internal and external learning and career development opportunities each year.

#### Work Environment Survey

Each year the LDB, with the assistance of BC Stats, conducts a Work Environment Survey to measure employee engagement, and is a valuable source for measuring strengths as well as outstanding needs in the organization. Feedback from the 2008 survey has resulted in a number of initiatives, including a new LDB Wellness Program and a New Manager Orientation Program.

Visit [www.bclldb.com](http://www.bclldb.com) and click on the *About Us* link to find out about careers at the LDB.

### LDB LEARNING PROGRAMS

- Customer Loyalty Strategies
- Product Knowledge Series
- Train the Trainer programs
- Signature Service
- Mobile Equipment Training
- Various Software Applications Training
- Occupational Health and Safety
- First Aid
- Safe Equipment Handling
- Community Services
- Harassment Prevention and Intervention

## GOAL 2: WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE TARGETS AND RESULTS 2008/09

**Create a customer-focused, high performance work environment that encourages greater employee involvement, development, innovation and creativity.**

### OBJECTIVE

- I. Continue to develop a customer-focused workforce that is knowledgeable, skilled, motivated and enthusiastic

### STRATEGIES

1. Enhance staff skills and engagement through management development, employee training and increased communication
2. Implement succession management plans for the organization
3. Provide a safe, healthy and harassment-free workplace
4. Promote a retail-oriented culture through an enhanced performance management and recognition process

Performance Measure	Targets	Achievement
Employee Engagement	08/09 – 75 09/10 – 80 10/11 – 80	<b>68</b> <b>Target not met:</b> Fiscal 2008/09 saw a two-point increase in our employee engagement measurement. Going forward, the LDB will continue to strive for yearly improvement in this goal. <b>Previous years:</b> 07/08 – target not measured, 06/07 – 66% employee satisfaction, 05/06 – 57% employee satisfaction



## **GOAL 3: CUSTOMER EXPERIENCE**

**Maintain the high level of wholesale and retail customer experience.**

### **PERFORMANCE HIGHLIGHTS**

#### **Customer Satisfaction**

We again exceeded our target for retail customers' satisfaction in 2008/2009, with 97 percent of customers surveyed rating their LDB service as excellent, very good or good.

#### **Vancouver Playhouse International Wine Festival**

For the 31st consecutive year, the LDB operated an on-site wine store during this year's Vancouver Playhouse International Wine Festival. Considered Canada's preeminent wine event, this year 183 wineries from 15 countries attended the festival, pouring 1,600 wines at 61 events. British Columbia took centre stage as the regional theme, and the global focus was on Pinot wines. We also offered the Get Home Safe program again this year, with free transit tickets available for festival-goers to travel home safely after attending the event.

#### **Website**

We had an average of 75,000 visitors per month to our website during 2008/2009, more than double the per-month tally in the previous year. Customers can visit the LDB website to search for products and to find information on our stores, services, current in-store features, entertaining ideas and more, at [www.bcliquorstores.com](http://www.bcliquorstores.com) or [www.bclldb.com](http://www.bclldb.com).

#### **Feature Programs**

The LDB worked with consulates and trade organizations to support their marketing efforts this year and featured programs highlighting the wines of various regions, including South Africa, New Zealand, Chile, Argentina, Spain, Italy, and California. Programs included store displays, trade events and in-store tastings.

#### **TASTE**

We offer customers interesting food, drink and entertaining ideas in *TASTE*, our quarterly, in-store magazine. Some of BC's top food and drink writers recommend local and international wines, refreshing cocktails and delectable recipes. *TASTE* also profiles new products in BC Liquor Stores, and special wine, beer and cocktail tasting events.

To meet customer demand for this popular publication, we'll distribute 480,000 complimentary copies of *TASTE* at BC Liquor Stores in the coming year, up from 400,000 the year before.

Visit [www.bclldb.com](http://www.bclldb.com) and click on *Entertaining & More* to read *TASTE* online.

### GOAL 3: CUSTOMER EXPERIENCE TARGETS AND RESULTS 2008/2009

#### Maintain the high level of wholesale and retail customer experience.

##### OBJECTIVE

1. Continue to enhance the shopping experience for wholesale and retail customers

##### STRATEGIES

1. Continuously refresh the store network
2. Continuously provide enhanced customer services

Performance Measure	Targets	Achievement
<b>Average Retail Customer Transaction Value</b>	08/09 – \$30.15 09/10 – \$31.05 10/11 – \$31.75	<b>\$31.35</b> <b>Target exceeded:</b> BC Liquor Store customers continue to explore and experiment with more premium beverage alcohol purchases. This has a positive effect on the average transaction value. <b>Previous years:</b> 07/08 – \$30.22, 06/07 – \$28.95, 05/06 – \$27.22
<b>Retail Customer Satisfaction</b>	08/09 – 90% 09/10 – 90% 10/11 – 90%	<b>99%</b> <b>Target exceeded:</b> 7,000 customers were surveyed: 32% responded with "excellent"; 41% responded with "very good"; 23% responded with "good". <b>Previous years:</b> 07/08 – 98%, 06/07 – 98%, 05/06 – 91%
<b>Wholesale Customer Satisfaction</b>	08/09 – 90% 09/10 – 90% 10/11 – 90%	<b>80%</b> <b>Target not met:</b> The LDB Wholesale Customer Satisfaction survey was conducted in conjunction with the implementation of the LDB Wholesale Order Management system. (Changes were also made to response parameters to reflect consistency with the retail customer survey.) While we are pleased to have received a very high rating during a time of change, we will continue to strive for the exemplary target of 90%. <b>Previous years:</b> 07/08 – target not measured, 06/07 – 90%, 05/06 – 90%

## GOAL 4: BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change.

### PERFORMANCE HIGHLIGHTS

#### Green Plan

In 2008, the LDB developed a *Green Plan* that identifies and tracks more than 50 sustainable/environmental initiatives to reduce our carbon footprint. The Manager of Environmental Initiatives (created in January 2008) was tasked with providing a centralized focus, delivering expertise in sustainability and leading green programs at the LDB. In addition, we established a Climate Action Team – representing all core operational areas of the LDB – to support greenhouse gas reduction goals and act as Green Team leaders in their operational areas. Some key initiatives in 2008/2009 included:

- Conducting a Power Smart energy audit of all facilities to reduce energy requirements and costs
- Reviewing recycling practices to maximize material recovery and reduce costs
- Phasing in a replacement of fleet vehicles with more fuel-efficient hybrid cars
- Creating *Think Green, Shop Smart* marketing programs to heighten green awareness among LDB employees and customers
- Launching the *Best Bag is No Bag at All* in-store program, which has reduced single-bag use by 17.8 per cent, or 4.8 million bags, in just eight months

#### Technology

Modern business depends on information and technology, and these are key to the LDB's ability to deliver efficient and effective service to both wholesale and retail customers. The LDB has taken advantage of the recent technologies it has implemented to deliver new capabilities featured in many of the business initiatives undertaken this year. In 2008/09 the LDB added extensive server and storage virtualisation for better cost effectiveness as well as environmental benefits, and has re-architected its network security for better protection of information. It also continued to build its capabilities in technology architecture, project management, and integrated testing in order to deliver better business solutions.

#### Wholesale Business

A LDB Wholesale website—[www.ldbwholesale.com](http://www.ldbwholesale.com)—was launched in 2008/09 and piloted an online ordering system with 70 wholesale customers, processing 900 orders worth \$10 million in retail sales. As a customer service initiative, the LDB also began posting to the wholesale website Price Changes/Limited Time Offer reports as well as a stocked wholesale product report for access by all wholesale customers. The Vancouver Wholesale Customer Centre served 1,100 customers and processed 56,645 orders for more than 2,714,000 cases of beverage alcohol in the fiscal year.

#### Corporate Security

The LDB remains a leader in corporate security and safety systems with technology that enhances safety and security, such as video imaging and security panels. These technological advances provide effective prevention and incident resolution tools, which create a safe environment for customers and employees, while also protecting LDB assets. The LDB partners with provincial and federal agencies to monitor illegal activities such as theft and cross-border smuggling. LDB investigators work with police and government agencies to prevent illicit activities, minimize the impact on communities, and address community concerns.

## Emergency Programs

In 2008/2009 the LDB completed a Pandemic Plan, an Enterprise-wide Risk Assessment, and a Business Impact Analysis to prioritize business processes and their alignment with LDB IT infrastructure. There is an emergency response team (ERT) in place as well as a functioning primary and secondary Emergency Operations Centre. All ERT members have been trained and participate in annual emergency response exercises. This past fiscal year, the LDB also made the decision to establish a second data centre at the Kamloops Distribution Centre. The new data centre will have more reliable infrastructure, facilitating a reduction in infrastructure-related outages, and enabling disaster recovery solutions. Both sites will serve as disaster recovery sites for each other.

## Information Management

The LDB has updated record management practices and developed a new system to manage corporate records in electronic, rather than paper, format. These improvements will generate costs savings and greater efficiencies in handling and storing documents, improve turnaround times, and assist in reducing the LDB's carbon footprint.

### GOAL 4: BUSINESS EFFECTIVENESS TARGETS AND RESULTS 2008/2009

#### Maintain operating efficiencies in a climate of constant change.

##### OBJECTIVE

1. Improve cost efficiencies

##### STRATEGIES

1. Maximize the potential efficiencies available through improved distribution operations
2. Increase the use of available, current and cost-effective technology

Performance Measure	Targets	Achievement
<b>Distribution Centre Accuracy Rate</b>	08/09 – 99% 09/10 – 99% 10/11 – 99%	<b>99%</b> <b>Target achieved:</b> The Distribution Centre continually performs to a high standard; ongoing accuracy verification shows consistent, positive results. [Beginning next fiscal the Distribution Centre fill rate will become the target measure for the LDB service plan.] Previous years: 07/08 – 99%, 06/07 – 99%, 05/06 – 99%
<b>Distribution Centre Labour Cost Per Case Shipped</b>	08/09 – \$1.67 09/10 – \$1.69 10/11 – \$1.69	<b>\$1.70</b> <b>Target not met:</b> A commitment to Wholesale direct delivery has increased the distribution service by 51 customers (14%). Wholesale customer orders are smaller than BC Liquor Store orders, requiring greater travel throughout the distribution centre as well as single bottle service, thereby increasing the cost per case. Previous years: 07/08 – \$1.67, 06/07 – \$1.70, 05/06 – \$1.58
<b>BC Liquor Stores Sales Per Square Foot*</b>	08/09 – \$1,228 09/10 – \$1,243 10/11 – \$1,261	<b>\$1,269</b> <b>Target exceeded:</b> Customer Service surveys continue to reveal that the shopping experience in BC Liquor Stores is rated highly by our customers. Previous years: 07/08 – \$1,224, 06/07 – \$1,167, 05/06 – \$1,158

\* This performance measure has been amended to no longer include the wholesale sales generated in store 100 and 231 as these stores are dedicated to serving only wholesale customers and do not operate any retail component.

## GOAL 5: PUBLIC SAFETY & SOCIAL RESPONSIBILITY

Encourage the responsible use of beverage alcohol.

### PERFORMANCE HIGHLIGHTS

#### Support Dry Grad

BC Liquor Store customers donated \$594,517 in 2008/2009 to support alcohol-free graduation events in their communities. During the campaign, customers are encouraged to donate one dollar or more to support dry grads in their communities. Since its inception in 2001, this annual campaign has raised more than \$2.8 million for dry graduation celebrations to protect youth throughout the province.

#### Share-a-Bear

For 20 years, we've sold plush teddy bears every November and December in BC Liquor Stores, and for every sale we donate a bear – its "twin" – to a children's charity to match each one a customer buys. Stores select local charities to support, which include Christmas stocking funds, hospitals, police and ambulance services, and other community groups. Our customers bought 30,500 bears in 2008/2009, up from 30,000 the previous year.

#### PECSF Campaign

LDB employees generously donated more than \$207,000 to the Provincial Employee Community Services Fund (PECSF) in 2008, the largest amount ever donated by LDB employees. An increase of over \$57,000 or 28 per cent over the year before, which exceeded the 11 per cent government-wide increase in overall donations to the Fund. All of the funds raised through employee contributions and fundraising events are given to charities across BC.

#### 24 Hour Relay for the Kids

Members of the LDB Beer-O-Crats team ran the 24-hour relay track again in 2008 to raise funds for children with disabilities. The Lions Society runs three Easter Seal Camps in BC equipped for kids with disabilities, in Squamish, Shawnigan Lake and Winfield. The LDB team raised more than \$11,700 in 2008, and has raised more than \$100,000 since joining the event in 1995.

Visit [www.bcldb.com](http://www.bcldb.com) and click on *About Us* for details of community involvement and social responsibility activities at the LDB.

### SOCIAL RESPONSIBILITY

The LDB includes social responsibility as a part of its daily operations, and supports a variety of programs throughout the year to raise awareness of responsible alcohol use. The goal of these programs is to address risks such as drinking and driving, and over-consumption:

- Responsible consumption messages in stores each month
- Just Checking! ID compliance
- Support Dry Grad
- Get Home Safe
- Alcohol and pregnancy

## GOAL 5: PUBLIC SAFETY AND SOCIAL RESPONSIBILITY TARGETS AND RESULTS 2008/2009

### Encourage the responsible use of beverage alcohol.

#### OBJECTIVES

1. Prevent sales to minors or intoxicated persons through BC Liquor Stores
2. Increased awareness and promotion of the responsible use of beverage alcohol

#### STRATEGIES

1. Increased staff education and enforcement of ID-checking program requirements
2. Develop co-operative programs with beverage alcohol suppliers and other stakeholders

Performance Measure	Targets	Achievement
<b>Store Compliance with ID-Checking Requirement</b>	08/09 – 100% 09/10 – 100% 10/11 – 100%	<b>77%</b> <b>Target not met:</b> The LCLB conducts 2-ID compliance checks throughout the province with all retailers of beverage alcohol. While final measures for fiscal 2008/09 are not completed at time of this report, in 2007/08 the LDB had a compliance rate of 77% for checking two IDs, and a compliance rate of 91% for checking one piece of ID. The LDB continues to commit to ensure that no underage persons are sold beverage alcohol in the BC Liquor Store chain. <b>Previous years:</b> 07/08 – 77%, 06/07 – n/a, 05/06 – 69%
<b>Customer Awareness of LDB Social Responsibility Programs</b>	08/09 – 90% 09/10 – 90% 10/11 – 90%	<b>88%</b> <b>Target not met:</b> Awareness of overall of social responsibility campaigns is high, however the LDB will continue to strive to increase visibility of social responsibility programs. <b>Previous years:</b> 07/08 – 89%, 06/07 – 96%, 05/06 – 78%
<b>In-Store Responsible-Use Beverage Alcohol Programs</b>	08/09 – 12 09/10 – 12 10/11 – 12	<b>12</b> <b>Target achieved:</b> One program per month is run in BC Liquor Stores. Some are sponsored entirely by the LDB and some are partnership endeavours. <b>Previous years:</b> 07/08 – 12, 06/07 – 12, 05/06 – 12



## BENCHMARKING

The LDB benchmarks itself with three other provinces: Alberta, Manitoba and Ontario. Although other provincial liquor authorities have many similarities with the LDB, there are important differences that impact the comparability of certain statistics. For example, in Ontario most beer is sold through a private Brewers Retail system, which results in lower sales per square foot for government stores in that province when compared to the LDB, which sells a large amount of beer through its stores.

### Average Retail Customer Transaction Value

Gross LDB store sales to retail customers divided by the number of retail customer transactions. This measure is an indicator of the LDB's success in improving the customer's retail shopping experience compared to government stores in other jurisdictions.

### Per Capita Net Income of Beverage Alcohol

This measure shows how the British Columbia liquor system compares to other provinces from the perspective of generating government revenue.

### Government Liquor Store (GLS) Operating Expenses as a Percentage of Store Sales

This measure is an indicator of LDB store efficiency as compared to other provincial government stores.

### Sales Per Square Foot (retail and wholesale)

This is another indicator of the efficiency of the LDB's store system.

## Benchmarking – Fiscal 2007/2008

	British Columbia	Alberta	Manitoba	Ontario
Average Retail Customer Transaction Value	\$30.22	N/A	\$35.79	\$37.32
Per Capita Net Income of Beverage Alcohol	\$196	\$189	\$181	\$144
GLS Operating Expenses as a Percentage of Store Sales	9.6%	N/A	9.3%	10.0%
Sales Per Square Foot (retail and wholesale)	\$1,536	N/A	\$957	\$930

### Public Service Work Environment Benchmark

The LDB participated in the 2008 Work Environment Survey. The survey looked at which workplace experiences matter most to employees and serves as a tool for developing actions that could lead to beneficial changes to employee engagement within the LDB. The survey was based on the British Columbia Public Service Work Environment Survey and the results were compared to the results for the British Columbia Public Service overall.

## Public Sector Work Environment Benchmark

Performance Measure	LDB	BC Public Service
Employee Engagement	68	66
Organization Commitment	70	67
Job Satisfaction	69	67
Organizational Satisfaction	65	62

## SHAREHOLDER'S LETTER OF EXPECTATIONS

The Shareholder's Letter of Expectations is a key component of the LDB's governance framework, and is an agreement between the Minister (on behalf of the Government of British Columbia) and the General Manager of the LDB.

This document establishes the LDB's corporate mandate and identifies Government's strategic priorities and performance expectations for the LDB.

Selected direction from Government and the status of the LDB's actions to implement this direction is shown in the attached chart. The full document is available on the LDB's website at: [http://www.bclldb.com/pdf/2009\\_SLE.pdf](http://www.bclldb.com/pdf/2009_SLE.pdf)

GOVERNMENT DIRECTION	LDB ALIGNMENT
<p>Inform the Shareholder on a regular basis of any major changes occurring or likely to occur in the beverage alcohol market, or within the LDB itself, that may impact on the LDB's achievement of its Service Plan targets either negatively or positively.</p>	<p>Done.</p>
<p>Comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the LDB's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the LDB's scope of operations.</p>	<p>Underway. Please see Goal 4: Business Effectiveness, page 15, for information on the LDB's <i>Green Plan</i> that identifies and tracks more than 50 sustainable/environmental initiatives to reduce our carbon footprint.</p>
<p>Comply with the Shareholder's and Liquor Control and Licensing Branch's direction to deliver social responsibility programs and service delivery rules and regulations.</p>	<p>Ongoing. Please see Goal 5: Public Safety and Social Responsibility, pages 17-18, for progress on social responsibility initiatives.</p>
<p>Support the Shareholder's Healthier Choices Initiative, including ensuring that all non-contracted vending machines located in facilities owned or leased by the LDB have food products which meet the Shareholder's Nutrition Guidelines for Vending Machines in Public Buildings, and that contracted vending machines be transitioned to the Nutrition Guidelines for Vending Machines in Public Buildings as soon as practicable upon expiry of their contracts.</p>	<p>Done.</p>

British Columbia Liquor Distribution Branch

# 2008/2009 Annual Report

## 2008/09 Financial Report

## MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal 2008/09 was the LDB's 17th consecutive year of sales growth, with an average annual increase of 6.2 per cent. In comparison to the 2008/09-2010/11 Service Plan target, net income was \$891 million, an increase of \$33.9 million over last year and \$37.5 million over the target; gross sales were \$2.79 billion, an increase of \$115 million over last year and \$123 million over the target.

### Results of Operations

Key Indices (all \$ figures in \$000s)

	Actual 2008/09	Budget 2008/09	Change vs. 2008/09 Budget	Actual 2007/08	Change vs. 2007/08 Actual
Gross Sales	2,794,530	2,671,538	122,992	2,679,466	115,064
Net Income	891,117	853,565	37,552	857,216	33,901
Capital Expenditures	16,865	20,308	(3,443)	17,681	(816)
Gross Margin %	41.3%	42.0%	-0.7%	41.2%	0.1%
Operating Income to Sales	31.6%	31.8%	-0.1%	31.6%	0.0%
Operating Expenses to Sales	9.7%	10.2%	-0.5%	9.6%	0.1%
Net Income to Sales	31.9%	32.0%	-0.1%	32.0%	-0.1%
Inventory Turnover	17	16	1 times	18	-1 times
Customer Count	34,516	N/A	N/A	36,914	(2,398)
Average Transaction \$ Value	\$31.35	\$30.15	\$1.20	\$30.22	\$1.13
FTE Count	2,878	2,808	70	2,851	27

Gross dollar sales grew in all categories. Sales volumes grew in all categories except for draft beer, special orders and non-alcoholic.

Private sector stores, licensee retail stores (LRSs) and agency stores purchase their product from the LDB at discounts ranging from 10 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased from 40.5 per cent to 41.3 per cent.

Capital expenditures decreased to \$16.9 million from \$17.7 million in the previous year. Capital expenditures were related to the completion of the wholesale order management system, records information management system, the primary data center and the financial business improvement project, as well as ongoing operational capital needs and tenant improvements for government liquor stores.

During fiscal 2008/09, the customer count at government liquor stores (GLSs) declined by 6.55 per cent, or 2.4 million customers to 34.5 million, due to the increase of 53 private stores and two fewer GLSs. The average retail customer transaction value at GLSs, however, increased to \$31.35 from \$30.22. This can be attributed to price increases, customers purchasing more premium products and less frequent visits to the stores.

Operating expenses were 9.7 per cent of sales for the fiscal year, which is 0.1 per cent more than fiscal 2007/08. The increase in the operating expense ratio is attributable to: increased employment costs due to increased volume; increased freight costs due to higher gasoline prices and increased volume; and increased bank charges due to higher credit card charges.

LDB net income as a percentage of sales decreased to 31.9 per cent from 32.0 per cent in the previous year. This decrease is due to the shift in sales from the retail segment (34.6 per cent) to the wholesale segment (30.0 per cent) and the increase in direct delivered 100 per cent BC wine products which result in no markup to the LDB.

The segmentation of sales into retail and wholesale is presented below. The retail operations is defined as all counter sales in GLSs and wholesale represents all other sales.

<b>Retail</b>					
<i>in millions \$</i>	<b>Actuals 2008/09</b>	<b>%</b>	<b>Actuals 2007/08</b>	<b>%</b>	<b>% Change</b>
Sales	1,136.2	100.0%	1,084.9	100.0%	4.7%
Commissions & Discounts	-	0.0%	-	0.0%	0.0%
Cost of Sales	554.9	48.8%	540.2	49.8%	2.7%
Operating Expenses	192.0	16.9%	182.1	16.8%	5.4%
Other Income	4.2	0.4%	6.4	0.6%	-34.4%
<b>Net Income</b>	<b>393.5</b>	<b>34.6%</b>	<b>369.0</b>	<b>34.0%</b>	<b>6.6%</b>
<b>Wholesale</b>					
<i>in millions \$</i>	<b>Actuals 2008/09</b>	<b>%</b>	<b>Actuals 2007/08</b>	<b>%</b>	<b>% Change</b>
Sales	1,658.3	100.0%	1,594.6	100.0%	4.0%
Commissions & Discounts	190.5	11.5%	180.0	11.3%	5.8%
Cost of Sales	896.3	54.1%	856.2	53.7%	4.7%
Operating Expenses	78.0	4.7%	73.9	4.6%	5.6%
Other Income	4.1	0.3%	3.8	0.2%	7.9%
<b>Net Income</b>	<b>497.6</b>	<b>30.0%</b>	<b>488.3</b>	<b>30.6%</b>	<b>1.9%</b>

For the retail segment, the net income as a percentage of sales increased to 34.6 per cent from 34.0 per cent. This change is due to an increase in sales with a greater product mix to wine and spirits and close monitoring of employment expenses which was partially offset by increased cost of beer products, repairs and maintenance and bank charges.

For the wholesale segment, the net income as a percentage of sales decreased to 30.0 per cent from 30.6 per cent. The segment experienced a 4.0 per cent increase in sales which was offset by increased discounts to wholesale customers and increased cost of products. The wholesale segment also has a higher proportion of beer sales than the retail segment which results in an overall lower return due to the lower mark-up rate on beer. In addition, direct delivery sales of 100 per cent BC wine products by BC wineries do not result in any mark-up to the Branch.

Overall inventory turns for the LDB have decreased, from 18 to 17 times. This indicates that the average number of days that the LDB holds inventory has increased from 20 to 21 days. Inventory turns at the GLSs went from 15 to 16 which is the result of a greater assortment of products to service the retail customers and close monitoring inventory levels in the stores.

Gross sales of \$2.8 billion represent an increase of 4.3 per cent over last year or \$115 million, and an increase of 4.6 per cent or \$123 million over budget. All major product categories experienced growth in dollar sales. The largest percentage dollar increase was in the refreshment beverage category at 6.3 per cent or \$6.8 million. Sales

in the spirits category increased by \$36.0 million or 5.1 per cent. Sales in the wine category increased by \$40.4 million or 5.2 per cent. Packaged beer recorded a sales increase of \$28.2 million or 3.0 per cent and draught beer was up \$1.9 million or 1.5 per cent in dollar sales. Specialty and non alcoholic sales increased by \$1.69 million or 16.0 per cent from the previous year.

Volume sales increased in all major categories except draught beer and non-alcoholic. The refreshment beverage category had the largest percentage volume increase at 5.8 per cent over the previous year, followed by wine at 3.4 per cent, spirits at 1.6 per cent, and packaged beer at 0.8 per cent. Non-alcoholic volumes decreased by 16.5 per cent.

Overall, imported products had a larger percentage increase in both dollar sales and volume.

	% Change in Sales \$ from Previous Year		% Change in Sales Volume (Litres) from Previous Year	
	Domestic	Import	Domestic	Import
Spirits	3.9	6.8	0.2	4.0
Wine	-5.8	15.7	-1.9	9.3
Beer	1.3	9.4	-1.7	6.2
Refreshment	2.0	27.2	2.0	29.7

### Key Financial and Operating Statistics

For the five years ended March 31, 2009 (all dollar figures in \$000)

	Actual 2008/09	Budget 2008/09	Actual 2007/08	Actual 2006/07	Actual 2005/06	Actual 2004/05
Sales	2,794,530	2,671,538	2,679,466	2,509,125	2,318,643	2,208,809
Cost of Sales	1,451,244	1,368,109	1,396,466	1,276,167	1,170,772	1,109,028
Gross Margin	1,152,762	1,121,987	1,103,040	1,090,834	1,022,929	1,008,494
Gross Margin (%)	41.3%	42.0%	41.2%	43.5%	44.1%	45.7%
Operating Expenses	269,954	271,648	256,058	256,302	242,428	240,045
Operating Expenses to Sales (%)	9.7%	10.2%	9.6%	10.2%	10.5%	10.9%
Operating Income	882,808	847,179	846,982	834,532	780,501	768,449
Operating Income to sales (%)	31.6%	31.7%	31.6%	33.3%	33.7%	34.8%
Net Income	891,117	853,565	857,216	840,286	800,471	778,594
Net Income to sales (%)	31.9%	32.0%	32.0%	33.5%	34.5%	35.3%
Inventory Turnover	16.7	15.7	18.0	19.0	18.9	17.7

Data source: LDB Oracle Financial System



## Provincial Sales by Source

For the five years ended March 31, 2009 (as a percentage of total dollar sales)

	2008/09	2007/08	2006/07	2005/06	2004/05
<b>Counter Sales</b>					
Government Liquor Stores (%)	40.7	40.5	42.7	45.3	49.1
Licensee Retail Stores (%)	33.0	32.3	30.1	28.0	24.3
Agency Stores (%)	8.3	8.1	8.3	7.5	7.2
<b>Total Counter Sales (%)</b>	<b>82.0</b>	<b>80.9</b>	<b>81.1</b>	<b>80.8</b>	<b>80.6</b>
Licensed Establishments (%)	18.0	19.1	18.9	19.2	19.4
<b>Total Sales (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Data source: LDB Oracle Financial System

## Counter Sales by Source

For the five years ended March 31, 2009 (as a percentage of total dollar sales)

	2008/09	2007/08	2006/07	2005/06	2004/05
<b>Counter Sales</b>					
Government Liquor Stores (%)	49.6	50.0	52.7	56.0	60.8
Licensee Retail Stores (%)	40.3	39.9	37.1	34.7	30.2
Agency Stores (%)	10.1	10.1	10.2	9.3	9.0
<b>Total Counter Sales Market (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Data source: LDB Oracle Financial System

## Remittances to Government Agencies

For the five years ended March 31, 2009 (all dollar figures in \$000)

	2008/09	2007/08	2006/07	2005/06	2004/05
<b>FEDERAL GOVERNMENT</b>					
Custom Duties and Excise Tax	\$ 144,619	\$ 141,303	\$ 133,612	\$ 127,912	\$ 126,905
Goods and Services Tax	\$ 127,656	\$ 141,481	\$ 144,158	\$ 150,690	\$ 145,201
<b>Total</b>	<b>\$ 272,275</b>	<b>\$ 282,784</b>	<b>\$ 277,770</b>	<b>\$ 278,602</b>	<b>\$ 272,106</b>
<b>PROVINCIAL GOVERNMENT</b>					
LDB Net Income	\$ 891,117	\$ 857,216	\$ 840,286	\$ 800,471	\$ 778,954
Social Services Tax	\$ 118,327	\$ 111,856	\$ 109,244	\$ 105,362	\$ 108,199
<b>Total</b>	<b>\$ 1,009,444</b>	<b>\$ 969,072</b>	<b>\$ 949,530</b>	<b>\$ 905,833</b>	<b>\$ 887,153</b>
<b>MUNICIPAL GOVERNMENT</b>					
Property Taxes	\$ 5,601	\$ 5,657	\$ 5,592	\$ 5,181	\$ 4,985
<b>Total Remittances</b>	<b>\$ 1,287,320</b>	<b>\$ 1,257,513</b>	<b>\$ 1,232,892</b>	<b>\$ 1,189,616</b>	<b>\$ 1,164,244</b>

## FUTURE OUTLOOK

### MANAGEMENT FUTURE OUTLOOK

Sales during the last quarter of fiscal 2008/09 softened from the trend in the previous years.

For the ensuing fiscal years, overall, volume sales for all product categories are expected to have minimal increases from the levels in fiscal 2008/09. However dollar sales should increase due to inflationary trends and the shifting of market between product categories by customers due to the economic climate. The growth in sales is expected to be realized in both the wholesale and retail segments and the market share between retail to wholesale is expected to be stable for 2009/10 and the following two years.

Continued growth in direct delivered 100 per cent BC wine products and the shift in market between product categories is expected to result in a lower return on total sales.

The effect of negotiated labour costs increase for fiscal 2009/10, higher rents especially in the urban regions, greater amortization on store improvements due to increased construction costs and increasing credit card charges will result in increased operating expenses. Operating expenses as a percentage of sales are budgeted at 10.3 per cent.

### Financial Outlook

*Projected Income, Expenses, Capital Requirements and FTE's (all dollar figures in \$millions)*

	Budget 2009/10	Forecast 2010/11	Forecast 2011/12
Total Sales	2,854.2	2,913.4	2,975.8
Commissions and Discounts	193.0	196.9	201.0
Cost of Sales	1,477.6	1,508.7	1,542.3
Operating Expenses	294.6	296.8	301.7
Other Income	7.1	7.5	7.5
Net Income	896.0	918.5	938.3
Capital	19.7	21.4	30.2
FTE's	2,941	2,949	2,957

The LDB has two distinct operations — retail and wholesale. The retail operations covers all counter sales in GLSs and wholesale represent all other sales. An Activity-Based Costing analysis between the retail and wholesale operations, which allocates expenses between the two operations, was done based on activities in fiscal 2006/07. This analysis will be updated during fiscal 2009/10 based on the previous fiscal year's activity. The segmented information provided below allocates the Financial Outlook into the retail and wholesale streams.

### Summary Financial Outlook

(in \$millions)

	Actual Fiscal 2007/08	Actual Fiscal 2008/09	Projection Fiscal 2009/10	Projection Fiscal 2010/11	Projection Fiscal 2011/12
<b>Retail</b>					
Total Sales	1,084.9	1,136.2	1,174.7	1,199.0	1,224.8
Cost of Sales	540.2	554.9	564.5	576.1	588.4
Operating Expenses	182.1	192.0	209.8	211.3	214.8
Other Income	6.4	4.2	3.6	3.8	3.8
Net Income	369.0	393.5	404.0	415.4	425.4

### Summary Financial Outlook

(in \$millions)

	Actual Fiscal 2007/08	Actual Fiscal 2008/09	Projection Fiscal 2009/10	Projection Fiscal 2010/11	Projection Fiscal 2011/12
<b>Wholesale</b>					
Sales	1,594.6	1,658.3	1,679.4	1,714.4	1,751.0
Commissions & Discounts	180	190.5	193.0	196.9	201.0
Cost of Sales	856.2	896.4	913.1	932.7	953.9
Operating Expenses	73.9	78.0	84.8	85.4	86.9
Other Income	3.8	4.2	3.5	3.7	3.7
Net Income	488.3	497.6	492.0	503.0	512.9

## KEY FORECAST ASSUMPTIONS

Forecast assumptions, based on market trends by product categories, include sales increases of 2.1 per cent, 2.1 per cent and 2.1 per cent over the next three years.

There is no expected market share shift between government and private retail outlets in 2009/10 onwards.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement. The increase in capital requirements for 2011/12 reflects funding for the replacement of the Point of Sale (POS) system in the GLS.

## RISK MANAGEMENT

### RISK FACTORS AND SENSITIVITIES

The upgrading of information systems is key in the delivery of efficient and effective services to LDB's retail and wholesale customers. The replacement of older, difficult to maintain systems with new systems creates challenges in integrating applications and ensuring accurate information.

In order for the LDB to provide credit card service in BC Liquor Stores, it must comply with the new Payment Card Industry (PCI) Data Security Standard.

The LDB and many other organizations are expecting greater difficulties in staffing key positions due to increased retirements and competitive job market.

The LDB Executive Management Committee meets monthly to discuss service plan performance, risks and mitigating strategies.

### MITIGATING STRATEGIES

The LDB is replacing older systems on scheduled basis and is working to improve the integration of new systems.

The LDB is in the process of developing and implementing a compliance plan that coordinates with the government-wide efforts currently underway.

The LDB has increased its succession planning efforts in order to recruit skilled employees from outside the organization and to support the career development of employees within the organization.

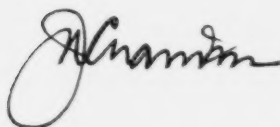
The LDB completed an Enterwise Wide Risk Assessment and identified the key risks which are being addressed. The LDB currently has a number of projects in progress to address the business and technology risks. These include the Financial Business Improvement Project, the Payment Card Industry Data Security Standards (PCIDSS) Compliance Program, Goods and Services Tax Project and the conversion to International Financial Reporting Standards. The PCIDSS project is being conducted jointly with the provincial government program.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

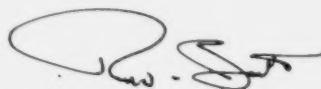
The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.



Jay Chambers  
General Manager



Roger M. Bissoondatt, CA, CMA  
Chief Financial Officer

Vancouver, British Columbia  
June 5, 2009



## Report of the Auditor General of British Columbia

*To the Minister of Housing and Social Development  
Province of British Columbia:*

I have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2009, and the statements of operations, advance due to Province of British Columbia and cash flows for the year then ended. These financial statements are the responsibility of the Branch's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Liquor Distribution Branch* as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
June 5, 2009*

John Doyle, MBA, CA  
Auditor General



# AUDITED FINANCIAL STATEMENTS

## British Columbia Liquor Distribution Branch

### Balance Sheet

(in \$000s)

As at March 31,

2009

2008

#### ASSETS

##### CURRENT ASSETS

Cash	502	--
Accounts receivable	7,444	6,544
Inventories (note 3)	91,202	83,301
Prepaid expenses (note 4)	4,332	6,106
Due from Province of British Columbia	--	34,976
	<u>103,480</u>	<u>130,927</u>

##### LONG TERM ASSETS

Prepaid expenses – long term (note 4)	2,855	1,426
Property, plant and equipment (note 5)	55,938	50,976
	<u>162,273</u>	<u>183,329</u>

#### LIABILITIES

##### CURRENT LIABILITIES

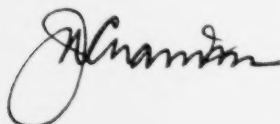
Bank indebtedness	--	22,647
Accounts payable and accrued liabilities	159,950	157,952
Current portion of deferred tenant allowances (note 6)	96	119
Current portion of tenant improvement loans (note 7)	436	601
Current portion of capital lease (note 8)	68	200
Due to Province of British Columbia (note 9)	375	--
	<u>160,925</u>	<u>181,519</u>

##### LONG TERM LIABILITIES

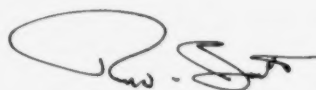
Deferred tenant allowances (note 6)	517	613
Tenant improvement loans (note 7)	581	1,017
Obligation under capital lease (note 8)	250	180
	<u>162,273</u>	<u>183,329</u>

Commitments and contingent items (notes 10 & 11)

Approved by:



Jay Chambers  
General Manager



Roger M. Bissoondatt, CA, CMA  
Chief Financial Officer

The accompanying notes and supplementary schedule are an integral part of these financial statements.

**British Columbia Liquor Distribution Branch****Statement of Operations***(in \$000s)*

Year Ended March 31,	2009	2008
Sales (note 12)	2,794,530	2,679,466
Less commissions & discounts	190,524	179,960
	<u>2,604,006</u>	<u>2,499,506</u>
Cost of merchandise sold	1,451,244	1,396,466
Gross margin	1,152,762	1,103,040
Operating expenses (schedule)	269,954	256,058
	<u>882,808</u>	<u>846,982</u>
Other income	8,309	10,234
Net income	<u><u>891,117</u></u>	<u><u>857,216</u></u>

**Statement of Advance Due (To) From Province of British Columbia***(in \$000s)*

Year Ended March 31,	2009	2008
Balance beginning of year	34,976	29,207
Net income	(891,117)	(857,216)
Payments to Province of British Columbia	855,766	862,985
Balance end of year	<u><u>(375)</u></u>	<u><u>34,976</u></u>

The accompanying notes and supplementary schedule are an integral part of these financial statements.

# British Columbia Liquor Distribution Branch

## Statement of Cash Flows

(in \$000s)

Year Ended March 31,	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		Restated (note 16)
Cash receipts from customers	2,517,522	2,417,851
Cash payments to the Province of British Columbia	(855,766)	(862,985)
Cash paid to suppliers and employees	(1,629,483)	(1,574,421)
Cash receipts from other income	8,096	10,045
Interest paid on capital lease and loans	(209)	(232)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	40,160	(9,742)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant & equipment	(11,024)	(12,693)
Acquisition of capital project assets	(5,528)	(4,955)
Proceeds from disposal of property, plant & equipment	203	192
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(16,349)	(17,456)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred tenant allowances	-	477
Payment on capital lease	(61)	(341)
Tenant improvement loans	(601)	(705)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	(662)	(569)
NET INCREASE (DECREASE) IN CASH	23,149	(27,767)
(BANK INDEBTEDNESS) CASH BEGINNING OF YEAR	(22,647)	5,120
CASH (BANK INDEBTEDNESS) END OF YEAR	502	(22,647)

The accompanying notes and supplementary schedule are an integral part of these financial statements.

## British Columbia Liquor Distribution Branch

## Schedule of Operating Expenses

(in \$000s)

Year Ended March 31,	2009	2008
Salaries, wages and benefits (note 13)	156,109	151,396
Rents	31,845	30,944
Bank charges	18,968	16,255
Amortization	11,598	9,790
Freight to stores	9,707	7,976
Repairs and maintenance	7,569	7,295
Professional services	6,374	4,988
Other operating expenses	6,234	6,343
Merchandising	4,343	4,024
Data processing	4,302	3,929
Light, water and fuel	2,706	2,626
Loss prevention	2,642	2,322
Telephone	2,432	3,262
Stationery and supplies	2,336	2,456
Warehouse equipment costs	1,700	1,234
Travel	880	986
Interest on long term liabilities	209	232
	<b>269,954</b>	<b>256,058</b>

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

## 1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (Branch) obtains its authority for operation from the *British Columbia Liquor Distribution Act (Act)*. As stated in Section 2 of this Act, the Branch has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the *Importation of Intoxicating Liquors Act (Canada)*.

## 2. SIGNIFICANT ACCOUNTING POLICIES

As prescribed by Section 30(3)(b) of the Act, the financial statements of the Branch are prepared in accordance with Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

### Financial Instruments

The Branch has designated its financial instruments as follows:

Cash is classified as held for trading and measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities are classified as other financial liabilities and are also measured at amortized cost.

The Branch is exposed to various risks related to its financial assets and liabilities. It is management's opinion that the Branch is not exposed to significant market, credit or liquidity risk arising from these instruments.

### Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Branch's income or the value of its financial instruments. The Branch's exposure to foreign currency risk is only related to the value of foreign exchange transactions in the normal course of business, and manages this risk by minimizing the amount of the transactions in foreign funds.

### Liquidity Risk

Liquidity risk is the risk that the Branch will be unable to meet its financial obligation as they become due. The Branch manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

### Credit Risk

Credit risk is the risk of financial loss to the Branch due to customer inability to pay for product or counterparty to a financial instrument fails to meet its contractual obligations. The Branch's exposure to credit risk is only related to the value of accounts receivable in its normal course of business, and manages this risk by minimizing the amount of transactions which require recovery. The Branch continually monitors and manages the collection of receivables.

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Foreign Currency Translation**

The Branch in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

#### **Inventories**

The Branch's inventories are valued at the lower of cost and net realizable value. Store inventories are determined on a first-in, first-out basis. Warehouse inventories are determined on a weighted average cost basis. Cost is comprised of supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets as expressed as follows:

##### **Buildings**

7.5 per cent per annum.

##### **Leasehold Improvements**

A minimum of 10 per cent per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease.

##### **Furniture, Fixtures, Vehicles and Equipment**

25 per cent per annum.

##### **Information Systems**

25 per cent per annum.

##### **Leasehold improvements and capital projects**

All material costs of construction and development for leasehold improvements and capital projects are treated as assets under Construction in Progress accounts. At the point in time when the project is substantially completed the costs are capitalized into their applicable categories and amortized at the asset category rate.

#### **Leases**

Assets recorded as capital leases are capitalized and amortized at the applicable asset category rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

#### **Revenue Recognition**

Revenue is recognized when the sale of product is made to customers. Customers include retail customers, licensed establishments, licensee retail stores, and agency stores.

# NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

### Changes in Accounting Policies

On April 1, 2008 the Branch adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Section 1535 Capital Disclosures, Section 3031 Inventories, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. The adoption of these new standards did not have any material impact on net income.

Section 1535 Capital Disclosures, requires disclosure of information related to the objectives, policies and processes for managing capital. In addition, the disclosures include whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Branch's net income.

Section 3031, Inventories, replaced Section 3030 with the same title, aligns Canadian GAAP with International Financial Reporting Standards. It establishes four basic principles: inventory should be measured at the lower of cost and net realizable value; the cost of inventory includes costs directly attributable to its acquisitions as well as an appropriate portion of fixed and variable production overheads; if the units in inventory are interchangeable, their cost should be determined using either a first-in-first-out or weighted average cost formula; and write-downs of inventory to its net realizable value should be reversed if the value subsequently recovers. The impact of this new standard has no significant effect on the financial statements.

Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation, revises and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The new disclosure provides additional information on the nature and extent of risk arising from financial instruments and how the Branch manages those risks.

### Future Accounting Standards

In February 2008 the CICA issued section 3064 Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangibles assets acquired in a business combination. This standard is effective for fiscal years beginning on or after October 1, 2008 and requires retroactive application to prior period financial statements. The Branch has evaluated the impact of this new standard for adoption on April 1, 2009 and does not expect any significant impact on its financial statements.

### International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current generally accepted accounting principles for those enterprises. These include profit-oriented enterprises that are responsible to large or diverse groups of stakeholders, including other government organizations, which would include the Branch. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Branch has begun assessing the adoption of IFRS, however the financial reporting impact from the transition to IFRS cannot be reasonably determined at this time.



## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

### 3. INVENTORIES

At March 31, 2009, store inventories were \$57.6 million (2008 - \$55.9 million) and warehouse inventories were \$33.6 million (2008 - \$27.4 million).

### 4. PREPAID EXPENSES

Prepaid expenses include wine purchases. The Branch as part of its on-going business practices purchases select products in advance to secure delivery of these products up to three years in advance. These products are normally purchased in foreign currency and are translated to Canadian dollars at the rate of exchange in effect at the transaction date. The Branch has recorded \$7.0 million of prepaid wine futures that represent \$4.1 million for 2009/10 and \$2.9 million for 2010/11.

### 5. PROPERTY, PLANT AND EQUIPMENT

	2009		2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1,068	-	1,068	1,068
Buildings	19,021	17,836	1,185	818
Leasehold improvements	49,289	23,133	26,156	21,605
Furniture, fixtures, vehicles & equipment	26,643	18,273	8,370	5,027
Office furnishings under capital lease	3,900	3,687	213	120
Information systems	82,951	71,394	11,557	8,955
Construction in process	7,389	-	7,389	13,383
	<b>190,261</b>	<b>134,323</b>	<b>55,938</b>	<b>50,976</b>

### 6. DEFERRED TENANT ALLOWANCES

Certain leasing agreements include incentives or landlord funding to be used towards expenditures such as tenant improvements or relocation expenses. The value of these benefits are recorded and amortized over the term of the lease.

Year Ending March 31	2010	96
	2011	85
	2012	85
	2013	85
	2014	85
	Subsequent years	177
		613
	Current portion	(96)
	<b>Long term</b>	<b>517</b>

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

### 7. TENANT IMPROVEMENT LOANS

As at March 31, 2009, the Branch has tenant improvements loans of \$1.0 million financed through landlords. The range of interest rates is 8% to 11.75% with loans expiring from August 2009 to June 2014. The principal payments due are as follows:

Year Ending March 31	2010	436
	2011	361
	2012	158
	2013	31
	2014	24
	Subsequent years	7
		<hr/> 1017
	Current portion	(436)
	<b>Long term</b>	<hr/> <b>581</b> <hr/>

### 8. OBLIGATIONS UNDER CAPITAL LEASES

The following schedule includes the future minimum lease payments for vehicles and operating equipment.

		Vehicles	Equipment	Total
Year ending March 31	2010	59	32	91
	2011	59	32	91
	2012	58	-	58
	2013	58	-	58
	2014	53	-	53
	Subsequent years	31	-	31
	Total	318	64	382
	Imputed interest rate	8%	9%	
	Interest	(58)	(6)	(64)
	Current Portion	(40)	(28)	(68)
	<b>Long term</b>	<b>220</b>	<b>30</b>	<b>250</b>

### 9. DUE TO PROVINCE OF BRITISH COLUMBIA

The Branch does not maintain a separate bank account and uses the Province of British Columbia's financial and banking systems to process and record its transactions. The amount due to the Province of British Columbia represents the accumulated net financial transactions with the Province.

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

### 10. COMMITMENTS

Future commitments for operating leases for Branch premises and equipment are as follows:

Year Ending March 31	2010	23,073
	2011	20,399
	2012	16,616
	2013	14,124
	2014	10,603
	Subsequent years	25,817
		<u><u>110,632</u></u>

### Government Liquor Store Fees

In fiscal 2008, the Branch entered into an agreement with the Liquor Control and Licensing Branch (LCLB) to provide the LCLB a fee in the amount of \$1,400 per Government Liquor store, on an annual basis. This amount is subject to an adjustment relative to the number of government liquor stores in operation. The term of this agreement is for five years. For the remaining three years, the LDB is required to pay an amount of \$276,000 each year in fees (based on 197 stores) plus administration costs.

### 11. CONTINGENT ITEMS

The Branch has authorized suppliers' agents to import and warehouse liquor for subsequent purchase by the Branch. Under this program, the Branch has a contractual obligation to purchase all inventories held by the agent should the agent opt out of the program. As at March 31, 2009, the value of agents' inventories totalled approximately \$94.6 million (2008 - \$77.8 million) and the future liability for related federal excise taxes is \$16.4 million (2008 - \$13.6 million). The Branch is currently in discussions with the Canada Revenue Agency relating to the application of the Goods and Services Tax (GST) on import wines and spirits under this program. It is anticipated that, with the exception of the timing of the payment of GST, there will not be any significant impact to the financial statements.

The Branch is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the corporation.

### 12. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

Year Ending March 31	2009	2008
Retail customers	1,136,225	1,084,901
Licensee retail stores	923,008	864,384
Agency stores	231,416	219,280
Licensed establishments	503,881	510,901
	<u><u>\$ 2,794,530</u></u>	<u><u>\$ 2,679,466</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

### 13. EMPLOYEES' BENEFIT PLANS

The Branch and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer, defined benefit plan. Under joint trusteeship, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation (March 31, 2008) determined that the Plan needed to implement a contribution rate increase to meet funding requirements of the *Pension Benefits Standards Act*. As a result, rates for employees and employers increased by 0.15% as of April 1, 2009. The total amount paid into this pension plan by the Branch for the 2008/09 fiscal year was \$10.0 million for employer contributions (2007/08: \$10.1 million).

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to \$9,790,708 (2008 - \$9,692,516), which represents future employees' retirement benefits outside of The Plan and is included in accounts payable. The expense adjustment recorded in the year is \$98,192 (2008 - \$345,984).

### 14. CAPITAL MANAGEMENT

The Branch does not retain any equity – which is what the Branch considers to be its capital. Net income is returned to the Province of British Columbia. The Branch's objectives when managing capital are to optimize the use of capital to provide an appropriate return to the Province.

The Branch manages its capital based on the funds available to the Branch. The Branch has policies and processes in place that provides direction for the management of the funds.

There has been no change to the Branch's capital management approach during the year. The Branch has no externally imposed capital requirements.

### 15. RELATED PARTY TRANSACTIONS

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

The Branch acts as an agent for the Ministry of Finance regarding the collection of social service taxes on liquor sales.

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(Tabular amounts in \$000s)

### 15. RELATED PARTY TRANSACTIONS (CON'T)

The financial statements include the following transactions with related parties of the Province of British Columbia and Crown corporations:

Year Ending March 31	2009	2008
Liabilities at March 31 with related parties include:		
Accounts payable	<u>\$89</u>	<u>\$391</u>
Payments to related parties were made for the following:		
Salaries, wages and benefits	\$26,852	\$25,599
Telephone	2,558	3,536
Light, water and fuel	1,684	1,773
Data processing	1,378	274
Other operating expenses	1,029	374
Stationary and supplies	1,004	1,093
Professional fees	432	203
Merchandising	100	146
Repairs and maintenance	48	32
Loss prevention	17	10
Rents	17	-
Travel	6	141
Warehouse equipment costs	2	4
Interest on long term liabilities	0	1
	<u>\$35,127</u>	<u>\$33,186</u>
Payments from related parties were received for the following:		
Other income	<u>\$62</u>	<u>\$38</u>

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

### 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

The cash flow statement for the prior year has been reclassified to conform with the presentation in the current year for the acquisition of property, plant and equipment and capital project assets at gross outlays instead of net outlays. This resulted in a decrease in cash spent on acquisition of property, plant and equipment by \$4.7 million, offset by an equal increase in cash used to acquire capital project assets.

## DATA ACCURACY

The following information summarizes the source and accuracy of the data used for Annual Report performance measures.

### **Sales Data (goals 1, 3, 4)**

Sales data for government liquor stores (GLSs) is collected from computerized point of sale cash register systems and stored in head office databases. Sales made directly to customers by agents on behalf of the Liquor Distribution Branch (LDB) are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Auditor General's office annually.

### **Expense Data (goals 1, 4)**

LDB expense data is captured, stored and reported by the LDB's financial system. The LDB's financial statements are audited by the Auditor General's office annually.

### **Employee and Customer Surveys (goals 2, 3, 5)**

The LDB contracts with professional survey companies to ensure that survey results are statistically valid.

### **Distribution Centre Accuracy Rate**

The accuracy of distribution centre orders is determined by random manual checks of orders that are ready for shipment.

### **Store Compliance with ID-Checking Requirement**

The Liquor Control and Licensing Branch checks GLS compliance with ID-checking requirements by using mystery shoppers.

### **Other Data (goals 3, 4, 5)**

Measures—including "In-Store Responsible-Use Beverage Alcohol Programs"—are counted and tracked manually.

### **Agent**

An individual, partnership or company representing a supplier in accordance with a letter of authorization accepted by the LDB, or an individual who is duly licensed pursuant to section 52 of the Liquor Control and Licensing Act to represent an authorized agent.

### **Brew Pub**

An establishment licensed to manufacture beer that is sold in an attached pub.

### **Capital Assets**

An asset, whether tangible or intangible, intended for use by the LDB for more than a single fiscal year. Tangible assets have a physical identity such as land, buildings and equipment. Intangible assets do not have a physical identity (for example, goodwill).

### **Capital Expenditures**

Money spent to acquire or upgrade capital assets.

### **Distillery**

Establishments licensed to manufacture distilled liquor products such as whisky, rum, vodka, gin and liqueurs.

### **Fiscal Year**

The start and end of the year for business and financial purposes. The LDB's fiscal year runs from April 1 to March 31.

### **Full Time Equivalent (FTE)**

The equivalent of one person working 1,827 hours in one year.

### **Gross Margin**

Excess of sales over the cost of the goods sold. Also called gross profit and can be expressed as a percentage of sales.

### **Gross Sales**

Total sales dollars, before any applicable discounts.

### **Inventory Turnover**

Inventory turnover ratio expresses the relationship between the cost of goods sold and the average inventory balance. It indicates the number of times the average inventory is sold during the year.

### **Liquor Control and Licensing Branch (LCLB)**

The LCLB licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

### **Net Income**

The total amount of profit that the LDB makes in the fiscal year.

### **Operating Expenses**

Expenses arising in the course of running a business.

### **Operating Income**

Income earned from operations.

### **Retail Customers**

Customers who buy beverage alcohol in government liquor stores for their own personal use. Also known as "Counter Customers."

### **Rural Agency Store**

Rural Agency Stores are general merchandise stores or grocery stores in rural communities that are authorized by the LDB to provide liquor service where it is not viable for a government liquor store to operate.

### **Service Plan**

A high-level planning document that summarizes for the public and stakeholders the core business of each Crown agency, the services provided, the actions planned and the expected results for each fiscal year.

### **Signature Stores**

Large government liquor stores with a wide selection of products and enhanced customer service.

### **Supplier**

A supplier is a manufacturer that provides beverage alcohol products to the LDB.

### **Wholesale Customers**

Wholesale customers are private retail stores and licensed establishments that buy beverage alcohol from the LDB for resale.



## CONTACT INFORMATION

For more information about the Liquor Distribution Branch, or to request more copies of this Annual Report, please contact the LDB Communications department:

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**via email:** [communications@bclldb.com](mailto:communications@bclldb.com)

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The British Columbia Liquor Distribution Branch 2008/2009 Annual Report is available online at [www.bclldb.com](http://www.bclldb.com)

For further information on the LDB's **Store Sales by Region** and **Top 10 Sales Results** please visit [www.bclldb.com](http://www.bclldb.com).



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